

Benefit Index[®] Methodology

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Benefit Index

History

- Developed in 1973
- Used by over 1,000 companies (majority of Fortune 500)
- Recognized as national standard for benefit comparisons

Methodology

- Measures relative benefit value (not cost)
- Common population
- Consistent actuarial assumptions
- Plan design is only variable

Methodology

Benefits included:

- Defined benefit pension
 - Final average pay
 - Career average pay
 - Cash balance
 - Pension equity
- Defined contribution
 - 401(k) savings plans
 - Deferred profit sharing plans
 - Employee stock ownership plans (ESOPs)
 - Money purchase pension plans
 - Stock purchase plans

Methodology

Benefits included:

- Death
 - Life insurance, survivor income for actives
 - Retiree life insurance (for future retirees)
- Disability
 - Sick leave
 - Salary continuation
 - Short-term
 - Long-term (LTD)

Methodology

Benefits included:

- Health care
 - Medical (indemnity, point-of-service (POS), PPO, HMO)
 - Dental
 - Hearing
 - Vision
 - Actives and retirees (for future retirees)
- Holidays
 - Fixed
 - Floating
 - Personal days (unrestricted use only)
- Vacation
 - Regularly scheduled
 - Paid sabbaticals

Methodology

Measurement techniques

- One-year term, i.e.,

$$\begin{array}{ccccc} \text{Probability} & & \text{Amount Paid} & & \text{Expected} \\ \text{of Event} & \text{X} & \text{If Event} & = & \text{Benefit} \\ \text{Occurring} & & \text{Occurs} & & \text{Value} \end{array}$$

- Defined contribution, preretirement death and health care, disability, holidays and vacations
- Present value of future payments spread over employee's employment
- Defined benefit pension, retiree life insurance, and retiree health insurance

Methodology

Common population

- Developed from personnel data provided by 20 major industrial corporations (representing 20 different industries)
- Does not represent any one company nor composite of 20 companies
- Used to facilitate comparisons
- Use of your population would not materially alter relative values or conclusions
- Actuarial and employee participation assumptions chosen with intention of being as realistic as possible

Methodology

Total value

- Based on value of total available benefits
- Considers participation in optional programs

Employer-paid value

$$\begin{array}{ccccc} \text{Total} & & \text{Value of} & & \text{Employer-} \\ \text{Benefit} & \text{—} & \text{Employee} & = & \text{Paid} \\ \text{Value} & & \text{Contributions} & & \text{Value} \end{array}$$

- Measures portion of economic value provided by employer
- Approximates company's relative cost position if demographics and funding assumptions were neutralized
- Most employers focus primarily on employer-paid index

Methodology

Relative value indexes

- Base point of 100.0 equals average value of comparator group company values

Example:

Index of 105.0 means benefit plan value is 5.0% above the average benefit plan value for comparator group companies

Example:

Index of 95.0 means benefit plan value is 5.0% below the average benefit plan value for comparator group companies

- Most employers consider 95.0 to 105.0 to be competitive

Benefit Value Example: Life Insurance

| | Comparator Group Average | Company A |
|---|-----------------------------|--------------------------|
| Employer-Paid Benefit | 1.5 x pay | 2 x pay |
| Optional Benefit | | |
| Amount | 2.5 x pay | 2 x pay |
| Employee Contribution | \$.20 per \$1,000 | \$.25 per \$1,000 |
| Total Value (Expected Claims for Model Population) | \$14.0 million | \$14.6 million |
| – Employee Contribution | – 5.0 million | – 4.4 million |
| = Employer-Paid Value | \$ 9.0 million | \$10.2 million |
| Total Value Index | 100.0 | $14.6 \div 14.0 = 104.3$ |
| Employer-Paid Value | 100.0 | $10.2 \div 9.0 = 113.3$ |